

**Supporting Statement for
The Quinquennial Finance Company Questionnaire and Survey
(FR 3033; OMB No. 7100-0277)**

Summary

The Board of Governors of the Federal Reserve System, under delegated authority from the Office of Management and Budget (OMB), proposes to conduct, with revision, a two-stage survey of finance companies in 2005 and 2006, continuing the regular five-year survey series (the "quinquennial") begun in 1955 (FR 3033; OMB No. 7100-0277). The data collected from this voluntary survey would be used to benchmark the consumer and business finance series collected on the monthly Domestic Finance Company Report of Consolidated Assets and Liabilities (FR 2248; OMB No. 7100-0005).

The first stage is a simple questionnaire (FR 3033p), which would be sent in October 2005 to all domestic finance companies identified either in the 2000 survey or from other sources. The questionnaire asks for information on each company's total net assets, areas of specialization, and other characteristics. From the universe of FR 3033p questionnaire respondents, the Federal Reserve would draw a stratified random sample of 750 finance companies for the second stage, the survey itself (FR 3033s). The survey would request detailed information, as of December 31, 2005, from both sides of the respondents' balance sheets.

The Federal Reserve proposes two major revisions: (1) to change the panel definition to include mortgage companies and (2) to instruct finance companies to include the assets and liabilities of their mortgage company subsidiaries. In addition, the Federal Reserve is concurrently proposing similar revisions on the FR 2248. A copy of the FR 3033p/s reporting forms and instructions, marked to reflect the proposed revisions, is provided in attachment 1. The estimated burden for the FR 3033 is 1,315 hours.

Background and Justification

Finance companies are a major supplier of credit to households and businesses. As currently defined, they hold or manage about 25 percent of total consumer credit outstanding, a market share second to that of commercial banks. Finance companies have made substantial inroads into the short- and intermediate-term business finance market as well. The business and consumer credit holdings of finance companies are key elements of domestic nonfinancial debt, which is monitored by the Federal Reserve Board and the Federal Open Market Committee (FOMC) in the implementation of monetary policy.

Since June 1955, the Federal Reserve System has surveyed the assets and liabilities of finance companies at five-year intervals. Through 1975, the universe of all known finance companies was surveyed. Since 1980, however, the quinquennial survey has been limited to a sample of finance companies (selected through a much shorter pre-survey) to reduce reporting burden.

The Federal Reserve has used the quinquennial survey to benchmark monthly data series on major assets and liabilities of finance companies developed from the FR 2248, which is

collected from an even smaller sample of companies. These monthly data are used in internal analyses and are reported to the public in two monthly statistical releases: “Finance Companies” (G.20) and “Consumer Credit” (G.19) as well as the quarterly “Flow of Funds” (Z.1) release. As with any data series based on a set sample, errors of estimation tend to increase over time, and thus require periodic correction. These errors reflect the evolution in the financial markets and the deterioration of the monthly sample panel as respondents close or merge. The data obtained from the quinquennial survey (FR 3033s) have been instrumental in identifying particular data items with relatively large errors of estimation and for supplementing the monthly FR 2248 respondent panel (attachment 2, table 1).

Description of Information Collection

The 2005 finance company pre-survey (FR 3033p) questionnaire would ask the same five questions asked in the 2000 questionnaire:

- Does the company exist?
- Is the company a finance company?
- Does the company specialize in one type of receivable?
- How large are the company’s total net assets?
- Is the company a branch of a finance company or a subsidiary of another type of company?

The sample for the full quinquennial (FR 3033s) survey would be based on the responses from the pre-survey. The full survey would collect balance sheet data on major categories of consumer and business credit receivables and on major liabilities of a stratified random sample of domestic finance companies.

Reporting Panel

The FR 3033p questionnaire would be mailed to as many as 4,000 finance companies on the Federal Reserve’s list of companies who responded to the 2000 survey and from other sources, about 1,500 more companies than in 2000. The increase in the reporting panel is to accommodate the addition of mortgage companies to the universe and reflects the approximate number of independent mortgage companies that will likely report under the Home Mortgage Disclosure Act (HMDA) in 2004. The mailing list is based on the universe of companies identified in the 2000 questionnaire and the list of likely HMDA reporters. The list is currently being updated with available information on companies that have merged, entered the industry, or gone out of business in the intervening period, and it will be checked against other sources.

From the FR 3033p questionnaires returned, the Federal Reserve would determine which of the respondents are eligible for the FR 3033s panel. Companies would be removed from the potential FR 3033s respondent list if they report that they are out of business, are not a finance

company (according to the new definition), or are a subsidiary of a bank.¹ The 2005 survey sample would be stratified by size, based on total assets and by specialization in receivables. The 2005 survey sample would likely include all FR 3033p respondents that reported at least \$10 million in total receivables. For coverage of smaller respondents, the 2005 survey sample would include all smaller companies that currently file the FR 2248 plus a sufficient number of other smaller companies to provide adequate representation. Proportional allocation would be used to draw a random sample.

In 2000, the Federal Reserve sent the FR 3033s survey to 600 finance companies and received 179 usable responses (30 percent). The 2000 population size, total sample, and the number of responses in each stratum are shown in attachment 2, table 2.

Given that the universe of finance companies has probably changed significantly since June 2000, error estimates based on the 2000 data must be interpreted as a rough guideline for the 2005 survey panel structure. The Federal Reserve has considered the error implications associated with three panel sizes (400, 600, and 800 companies) and their associated response patterns. The estimated response distributions, shown in attachment 2, table 2, assume an overall response rate of 30 percent, as was obtained in 2000.

As shown in attachment 2, table 3, the Federal Reserve calculated the standard errors of the simple expansion estimator that is used to derive population aggregates. Strictly speaking, the standard errors for panel sizes, assuming the response rate mentioned above, can only be said to hold for the 2000 survey population. If response rates fall below the assumed level, the standard errors would increase. Also, significantly larger errors would be observed if one or more of the largest companies refuse to participate, owing partly to the highly skewed distribution of the size of finance companies.

Given the uncertainty about the overall response rate, the long time between benchmark surveys, the uncertainty about response patterns within the size groups and specialization categories, and the relative size of the standard errors, the Federal Reserve recommends increasing the sample size to 750 companies to achieve the necessary precision in the estimated aggregates. This sample size is based on the 600 companies needed to achieve the necessary precision in the finance company estimates, plus an additional 150 companies to accommodate the mortgage companies.

Proposed Revisions

The quinquennial finance company survey has traditionally collected balance sheet information from non-depository institutions for which the combination of sales finance receivables, personal cash loans, short- and intermediate-term business loans, and junior liens on real estate represent the largest portion of assets. This definition excludes mortgage companies,

¹ The results of the 2000 FR 3033p questionnaire were as follows: 2,589 mailed, 1,729 returned, 675 usable, and 1,054 unusable. Of the unusable, 573 were returned by the post office and 481 of the companies were either not a finance company (34.1 percent), out of business (37.6 percent), a finance company subsidiary (18.7 percent), a bank subsidiary (5.4 percent), or out of scope of the reporting form (4.2 percent).

which are non-depository institutions that specialize in first liens on real estate. As a related matter, the current survey instructs finance company respondents to exclude the assets and liabilities of mortgage company subsidiaries from their reported figures.

The Federal Reserve proposes to change the panel definition to include mortgage companies. In addition, the Federal Reserve proposes to instruct finance companies to include the assets and liabilities of their mortgage company subsidiaries.

The inclusion of mortgage companies would improve estimates of financial flows, particularly household mortgage debt growth, as measured by the Federal Reserve Board's Flow of Funds accounts. Since Housing and Urban Development discontinued its Survey of Mortgage Lending Activity in the late 1990s, the Federal Reserve has been without a regular data source on the activities of mortgage companies. During this time, these firms may have accumulated inventories of loans that the estimates are not measuring. Also, as the front end of the mortgage "pipeline," mortgage companies may at times temporarily hold significant balances of mortgages awaiting securitization or sale. Thus, expanding the scope of the FR 3033 to include mortgage companies would improve the estimate of the overall stock of mortgage debt, and also mitigate likely measurement error in the quarterly flow measures of household debt growth from our failure to observe transitory mortgage holdings of these firms.

Proposed Revisions to the FR 3033p Instructions

- Revise the "Scope of the Report" section on the FR 3033p by changing the definition of a finance company to include companies in which the largest portion of assets is in first liens on real estate.
- Revise Item 3 to update the types of receivables included in the proposed company definition to reflect current market definitions.
- Revise Item 4 to ask for the size of the company's total assets (including additional categories) to more accurately stratify the companies by size.

Proposed Revisions to the FR 3033s Reporting Form and Instructions

- Revise the "Definitions" section on the FR 3033s instructions by changing the definition of a finance company to include companies in which the largest portion of assets is in first liens on real estate.
- Revise the amount outstanding column headings to accommodate reporting in billions of dollars.
- Add Item 2.A(1) "Revolving, open-end loans secured by 1-4 family residential properties and extended under lines of credit" to be consistent with the FR 2248.
- Add Items 2.A(2) "Closed-end loans secured by 1-4 family residential properties," 2.A(2)(a) "Secured by first liens," 2.A(2)(b) "Secured by junior liens" to be consistent with the FR 2248.

Frequency

The Federal Reserve proposes to retain the five-year frequency for the survey.

Time Schedule for Information Collection and Publication

FR 3033p

- The FR 3033p questionnaire would be mailed to the respondents in October 2005 and would be due at the Federal Reserve Board within ten days of its receipt by respondents.
- The Federal Reserve Board would process the results and approach Reserve Banks in early November to request telephone follow-up for selected respondents. Each Reserve Bank would call a maximum of twenty-five finance companies that did not submit a questionnaire.
- Results from the follow-up telephone calls should be reported to the Federal Reserve Board within thirty days of their request. The information received from the questionnaires and telephone inquiries would not be published.

FR 3033s

- The FR 3033s survey would be mailed out in January 2006. The panel of 750 companies includes 45 companies that are FR 2248 reporters and about 705 other companies.
- The 45 FR 2248 reporters on the FR 3033s panel would not receive the FR 3033s reporting form; instead they would submit the December 2005 FR 2248 data to their Federal Reserve Bank if they normally do so. Reserve Banks should transmit the edited data to the Federal Reserve Board by the eighteenth business day of January 2006. The Federal Reserve Board would use this FR 2248 information as part of the quinquennial survey.
- 715 respondents would be directed to return the quinquennial survey information directly to the Federal Reserve Board: the 10 FR 2248 reporters that have chosen to file directly with the Federal Reserve Board on a regular basis and the 705 other companies.
- To maximize the response rate, the timing of the FR 3033s survey would coincide as closely as possible to fourth-quarter SEC 10-Q filings.² The survey would be mailed after January 15, 2006, with instructions to return it directly to the Federal Reserve Board by February 15. Follow-up mailings would be sent out after February 15, and non-respondents would be telephoned after March 1.
- Once the data from FR 3033s have been analyzed, they would be used as a benchmark for the period June 2000 through December 2005. The newly benchmarked series would be published in the Federal Reserve's monthly Finance Companies (G.20), monthly Consumer Credit (G.19) and quarterly Flow of Funds (Z. 1) releases.
- It is anticipated that this phase of analysis would be completed by mid-2006, at which time benchmark estimates based on the FR 3033s survey data would be publicly reported.

² The 10-Q is currently due to the SEC within 45 days of the end of the quarter.

Legal Status

The Federal Reserve Board's Legal Division has determined that the FR 3033 questionnaire and survey are authorized by law (12 U.S.C. §§225a, 263, and 353-359) and are voluntary. Individual respondent data are confidential under section (b)(4) of the Freedom of Information Act (5 U.S.C. §552).

Consultation outside the Agency

There has been no consultation outside the Federal Reserve System.

Sensitive Questions

This report contains no sensitive questions, as defined by OMB guidelines.

Estimates of Respondent Burden

The burden associated with the preliminary questionnaire (FR 3033p) is attributed to all the domestic finance companies, whereas the full survey (FR 3033s) burden is only attributed to a stratified sample of the FR 3033p respondents. The combined annual burden for both the FR 3033p and FR 3033s is estimated to be 1,315 hours, as shown in the table below. The total estimated annual burden represents less than 1 percent of the burden for the Federal Reserve System.

	<i>Number of respondents</i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
FR 3033p	4,000	1	0.25	1,000
FR 3033s	750	1	0.42	315
<i>total</i>				1,315

Based on a rate of \$20 per hour, the annual cost to the public for this report is estimated to be \$26,300.

Estimate of Cost to the Federal Reserve System

The annual cost to the Federal Reserve for collecting and processing this report is negligible.